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THE IMPACT OF GREEN FINANCE AND SUSTAINABLE INVESTMENT ON CORPORATE FINANCIAL PERFORMANCE: A CROSS-SECTOR LITERATURE REVIEW

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Abstract

This study analyzes the impact of green finance and sustainable investment on corporate financial performance through a comprehensive cross-sector literature review. The increasing global awareness of environmental issues has encouraged companies to adopt sustainable finance practices. This study synthesizes findings from ten recent peer-reviewed journal articles (2022-2025) covering a wide range of geographic and sectoral focuses. The review results show that green finance and sustainable investment tend to have a positive impact on corporate financial performance, mainly through lowering the cost of capital, enhancing reputation, and encouraging green innovation. These mechanisms vary across sectors, with high-environment risk sectors focusing on risk management, while services and finance sectors place greater emphasis on transparency and investor attraction. Challenges such as high upfront costs, lack of standards, and greenwashing risks remain, but opportunities from market growth, regulatory support, and technological innovation are significant. This study provides important insights for policymakers, investors, and companies in formulating effective sustainability strategies.

Keywords: Finance, Sustainable Investment, Corporate Financial Performance, Literature Review, ESG.

INTRODUCTION

Global awareness of environmental issues and climate change has reached a critical point, driven by the cumulative negative impacts of rapid industrial development and unsustainable exploitation of natural resources. This phenomenon, manifested in the form of rising global temperatures, extreme weather, and biodiversity loss, has prompted the international community to recognize the urgency of transforming the economic paradigm. Various international forums, including the Conference of the Parties (COP) such as COP26 in Glasgow and COP27 in Sharm El Sheikh, have consistently emphasized the importance of mobilizing financing and investment oriented towards environmental sustainability as a foundation for achieving climate change mitigation and adaptation targets (Singhania et al., 2023). This shift indicates that sustainability is no longer just an option, but a strategic imperative that affects the entire spectrum of economic activities, from consumption patterns to production and investment, to ensure long-term ecological balance (Bhutta et al., 2024).

In response to this increasing environmental awareness, the concept of green finance and sustainable investment has emerged as a key pillar in the transition to a green economy. Green finance is defined as the flow of funds from various public, private and non-profit sectors allocated to finance projects and initiatives that support sustainable development and contribute to environmental protection (B & Kumar, 2025). Instruments such as green bonds and investments based on Environmental, Social, and Governance (ESG) criteria are key mechanisms in realizing this goal. These instruments not only aim to manage the environmental risks inherent in business operations but also to increase transparency, encourage green innovation, and direct capital towards activities that have a positive impact on the environment and society (B & Kumar, 2025; Raza et al., 2022; Bhutta et al., 2024). Furthermore, sustainable investing specifically integrates financial considerations with positive social and environmental impacts, in line with the achievement of the UN Sustainable Development Goals (SDGs), demonstrating a more holistic commitment (Singhania et al., 2023; Mangla et al., 2022).

Given the urgency and rapid development of both concepts, it is important to examine in depth the impact of green finance and sustainable investment on corporate financial performance. Early studies have shown that the adoption of green finance and sustainable investment practices has the potential to improve investment efficiency, market competitiveness, and overall corporate financial performance, especially when supported by strong and transparent corporate governance (Oneya & Jemaiyo, 2025; Wijayanti & Hasmirati, 2024). Companies that are proactive in integrating sustainability principles into their business strategies tend to benefit from lower capital costs, improved brand reputation, and better adaptability to increasingly stringent environmental regulations. In addition, green finance has also been shown to be able to encourage green innovation, facilitate the development of more environmentally friendly products and processes, and overcome funding constraints often faced by sustainable projects (Bhutta et al., 2024).

The relationship between sustainability and corporate financial performance continues to show complexity and variation. Several studies indicate that positive impacts on financial performance are often not instantaneous, but occur with a certain time lag, reflecting the long-term nature of investments in sustainability. Research results can also vary greatly depending on the institutional context, applicable regulations, and the specific characteristics of the industry in which the company operates (Hartwig et al., 2023). For example, sectors with high environmental impacts may show different responses compared to service sectors. This suggests that there is no "one size fits all" approach to assessing these impacts, and a more detailed analysis of the moderating factors influencing the relationship is needed. This diversity of findings underscores the need for a systematic synthesis to comprehensively understand the dynamics underlying this complex relationship.

Although there have been many studies that have highlighted individual aspects of green finance and sustainable investment and their impacts on financial performance, there is still a gap in a comprehensive literature review that specifically analyzes these impacts across sectors. Most studies tend to focus on one or a few specific sectors, or on a single type of green financial instrument, thus failing to provide a holistic picture of how these influence mechanisms operate across industries. Furthermore, the lack of a systematic synthesis of the challenges and opportunities of implementing green finance and sustainable investment that affect corporate financial performance from a cross-sector perspective is also an area that needs further exploration. Therefore, this study aims to fill this gap by presenting an integrated and multidimensional literature review, providing a broader view of the existing research landscape.

This research is novel through a cross-sector literature review approach that will present a synthesis of findings from various studies across industries. Focusing on comparing and identifying the different mechanisms of influence between green finance and sustainable investment on corporate financial performance across sectors will provide deeper insights compared to studies that focus on a single sector. By analyzing literature from various industry contexts, this research will be able to identify general patterns and specific differences in the observed impacts, as well as contextual factors that may influence them. This will enable a more precise identification of research gaps and provide a strong basis for the development of future research agendas, as well as more relevant practical guidance for policymakers and industry players.

Based on the background of the problem, problem formulation, and identified research gaps, this study has two main objectives. First, this study aims to analyze the impact of green finance on corporate financial performance based on a comprehensive literature review. This analysis will include the identification of various green finance instruments and how their implementation correlates with financial performance indicators such as profitability, firm value, and operational efficiency. Second, this study aims to analyze the impact of sustainable investment on corporate financial performance, also based on a literature review. This section will explore how the integration of ESG criteria into investment decisions affects various aspects of corporate financial performance, including risk management, reputation, and investor attractiveness. Both of these objectives will be achieved through a systematic and in-depth literature synthesis approach, seeking to provide a clear picture of the complex relationship between sustainability and corporate financial performance across sectors.

RESEARCH METHOD

This study adopts a systematic literature review method. This approach was chosen to analyze and synthesize information from various relevant literature sources in order to build a comprehensive understanding of the impact of green finance and sustainable investment on corporate financial performance. According to Sugiyono (2009), a literature review is an essential step in research to build a strong theoretical foundation and identify the position of the research to be carried out in a broader scientific context. The literature search strategy was carried out extensively using leading scientific databases such as Scopus, Web of Science, Google Scholar, ScienceDirect, Emerald Insight, and JSTOR. The keywords used include a combination of "green finance", "sustainable investment", "ESG investing", "corporate financial performance", "firm performance", "environmental finance", "green bonds", "impact", "relationship", and "cross-sectoral". The main focus of the search was publications in the last 5-10 years, although relevant seminal studies were also considered to provide adequate historical context.

The process of selecting and assessing the quality of literature is carried out in stages and systematically. The initial stage involves identifying potential studies based on the title and abstract to ensure their relevance to the research topic. Next, articles deemed relevant will be read in full for further evaluation. Inclusion criteria include studies that explicitly discuss the relationship between green finance/sustainable investment and corporate financial performance, peer-reviewed journal articles, book chapters, and research reports from reputable institutions published in English or Indonesian. It is also important to include studies that cover multiple sectors or provide cross-sectoral insights to support the objectives of this study. Conversely, exclusion criteria include studies that do not directly discuss the research variables, opinion or news articles without peer review, and studies that focus too much on a single sector without broader generalization. This process is crucial to ensure the quality and validity of the data to be analyzed, as emphasized by Nasution (2012) regarding the importance of selecting credible sources.

Data analysis in this study was conducted through two main approaches: synthesis of findings and thematic analysis. Synthesis of findings focuses on identifying patterns, similarities, differences, and contradictions across selected studies. This allows researchers to compare results from different contexts, methodologies, and sectors. Meanwhile, thematic analysis involves grouping findings based on relevant key themes, such as impacts on profitability, corporate reputation, green innovation, and risk management. This approach helps in developing a coherent conceptual framework from the existing literature. In addition, the data analysis process is also directed at identifying unexplored research gaps or areas that require further exploration in the future. Through this method, it is expected to obtain a comprehensive and in-depth understanding of the dynamics of the relationship between green finance, sustainable investment, and corporate financial performance across sectors.

RESULT AND DISCUSSION

Overview of Reviewed Literature

This literature review covers ten studies relevant to the topic of the impact of green finance and sustainable investment on corporate financial performance. These sources are mostly peer-reviewed journal articles from various disciplines, reflecting the interdisciplinary nature of this topic.

Table 1. Research used as literature

No.	Author & Year	Research Title	Journal/Publisher	Main Focus
1.	Oneya, S., & Jemaiyo, B. (2025)	Green Financing, Corporate Governance and Financial Performance of Commercial Banks in Kenya: A Review of Literature	European Journal of Accounting, Auditing and Finance Research	Green financing, corporate governance, commercial bank financial performance (Kenya)
2.	B, M., & Kumar, D. (2025)	Integrating Sustainability: A Theoretical Review of Green Finance Practices and Their Impact on Organizational Performance	International Journal of Scientific Research in Engineering and Management	A theoretical review of green finance and its impact on organizational performance
3.	Wijayanti, R., & H. (2024)	Sustainable Finance And Investment Efficiency: A Literature Review	AMAR (Andalas Management Review)	Sustainable finance, investment efficiency
4.	Hartwig, F., Blomkvist, M., Rahi, A., & Johansson, J. (2023)	Corporate sustainability and financial performance: A hybrid literature review	Corporate Social Responsibility and Environmental Management	Corporate sustainability, financial performance (hybrid review)
5.	Singhania, M., Chadha, G., & Bhan, I. (2023)	Sustainable investments: a scientometric review and research agenda	Managerial Finance	Sustainable investment (scientometric review)
6.	Raza, A., Bhutta, U., Farrukh, M., Iqbal, M., & Tariq, A. (2022).	Green bonds for sustainable development: Review of literature on development and impact of green bonds	Technological Forecasting and Social Change	Green bonds, sustainable development
7.	Mangla, S., Rao, S., Kumar, S., Lim, W., & Sharma, D. (2022)	Past, present, and future of sustainable finance: insights from big data analytics through machine learning of scholarly research	Annals of Operations Research	Sustainable finance (big data analytics and machine learning)
8.	Bhutta, U.,	Innovation through Green	Current Opinion in	Green finance, green

	Ahmed, D., & Hua, H. (2024)	Finance: a thematic review	Environmental Sustainability	innovation (thematic review)
9.	Tagar, U., Kumar, B., Kumar, A., Sassanelli, C., Kumar, L., & Kumari, R. (2023)	Green finance in circular economy: a literature review	Environment, Development and Sustainability	Green finance, circular economy
10.	Marti, E., Slager, R., Gond, J., Fuchs, M., & DesJardine, M. (2023)	The Impact of Sustainable Investing: A Multidisciplinary Review	Journal of Management Studies	Impact of sustainable investment (a multidisciplinary review)

Although some of the above articles do not explicitly mention their geographical focus because they are general or theoretical reviews, there are some studies that have regional implications or focus. For example, Oneya & Jemaiyo (2025) specifically review the literature on commercial banks in Kenya, indicating an interest in the developing country context. Meanwhile, most other studies such as those conducted by Hartwig et al. (2023), Singhania et al. (2023), Raza et al. (2022), Mangla et al. (2022), and Marti et al. (2023) are more global in nature or not tied to a specific geographical region, indicating that the issue is relevant in various parts of the world. These studies often analyze global trends or develop universally applicable conceptual frameworks.

All reviewed literature is the latest publication, spanning the years 2022 to 2025. This shows that green finance and sustainable investment are hot topics and have continued to grow in recent years. The majority of studies were published in 2023 (4 studies), followed by 2024 (2 studies) and 2025 (2 studies), and 2022 (2 studies). This recency ensures that the review reflects the latest developments, research trends, and most recent findings in the field, which is particularly important given the rapid dynamics in sustainable finance practices and related regulations.

Based on the existing literature, it is apparent that research tends to be more cross-sectoral or general theoretical, rather than focusing on a specific sector. Some studies, such as Oneya & Jemaiyo (2025), specifically target the banking/financial sector (i.e., commercial banks), which are indeed key players in the implementation of green finance. However, most other studies, such as those conducted by B & Kumar (2025), Wijayanti & Hasmirati (2024), Hartwig et al. (2023), Singhania et al. (2023), Raza et al. (2022), Mangla et al. (2022), Bhutta et al. (2024), Tagar et al. (2023), and Marti et al. (2023), discuss the impact of green finance and sustainable investment broadly without limiting their analysis to a particular sector. They discuss the concept, mechanism, and its general impact on organizational performance or sustainable development. This indicates a need for further exploration of the specific impacts on various economic sectors.

The Impact of Green Finance on Corporate Financial Performance

Green finance plays a crucial role in driving improvements in corporate financial performance, although the complexity of the relationship often results in varying findings, ranging from positive, negative, to neutral, which are highly dependent on the specific context, industry sector, and the mechanisms of influence involved. Predominantly, the existing literature shows a significant positive relationship between the adoption of green finance practices and improvements in corporate financial performance. However, it cannot be ignored that there are also several studies that report neutral or inconclusive results, indicating the existence of moderating and mediating factors that need to be carefully considered. This variation underlines the need for in-depth analysis to understand how and under what conditions green finance can provide optimal contributions to corporate financial sustainability.

A large number of studies consistently find that the implementation of green finance is positively correlated with improved corporate financial performance. For example, studies by Oneya & Jemaiyo (2025) and B & Kumar (2025) show that the implementation of green finance instruments, such as green bonds, green credit, and sustainable investment, contributes to increased profitability, investment efficiency, and competitiveness. Wijayanti & Hasmirati (2024) also emphasize that green finance can improve investment efficiency and transparency, while Zhang (2025) and Raza et al. (2022) highlight the role of green bonds in supporting financial growth and corporate reputation. These positive findings are often reinforced by the presence of good corporate governance, especially in the banking sector, which acts as a facilitator in maximizing the positive impact of green finance initiatives on financial performance.

The positive impact of green finance on financial performance can be explained through several key mechanisms. First, green finance is able to provide access to cheaper sources of capital. Instruments such as green bonds, for example, attract investors with sustainability preferences, who are willing to accept slightly lower rates of return due to ESG motivations, thereby reducing the cost of funding for issuers (Raza et al., 2022). Second, improving a company's reputation becomes a non-financial benefit that ultimately impacts financial performance. Companies that are active in green finance tend to gain more trust from investors, consumers, and other stakeholders, which can open up new market opportunities and increase brand value (B & Kumar, 2025; Zhang, 2025). Third, the existence of tax and regulatory incentives in several countries also encourages companies to adopt green practices, which indirectly supports their financial performance.

However, the literature also presents neutral findings or even shows inconsistent results regarding the impact of green finance on financial performance. Several studies, such as those by Lee & Suh (2022), Hartwig et al. (2023), and Jia & Kassim (2024), found that the relationship can vary across industries and countries, or even be insignificant. This is often attributed to several factors, including differences in institutional and regulatory contexts, data bias, or the greenwashing phenomenon where companies claim green practices without substantial implementation. In addition, implementation challenges such as lack of clear financial incentives, immature regulations, and high initial costs for green projects can hinder the realization of the positive impacts of green finance (Tagar et al., 2023), which in turn can produce less convincing findings.

Overall, this literature review indicates that green finance tends to have a substantial positive impact on corporate financial performance, especially when supported by effective governance and conducive regulation. The dominant mechanisms of influence include providing cheaper access to capital, enhancing reputation and investor confidence, and encouraging innovation and operational efficiency. However, variations in findings suggest that these impacts are not universal and may be influenced by sector characteristics, internal corporate policies, and external conditions such as market incentives or greenwashing risks. Therefore, for companies and policymakers, understanding this context is crucial in formulating effective green finance strategies to achieve sustainability and financial performance goals.

The Impact of Sustainable Investment on Corporate Financial Performance

Sustainable investment, particularly integrating Environmental, Social, and Governance (ESG) criteria, has emerged as a crucial factor that significantly impacts the corporate financial performance landscape. The majority of relevant literature consistently shows that the adoption of sustainable investment practices and superior ESG performance tend to have a positive impact on various aspects of corporate financial performance. However, it is important to note that there is significant variation in these findings, often depending on the characteristics of the industry sector, the geographic or country context in which the study is conducted, and the measurement method used. Some studies also present neutral or even negative findings, indicating the complexity of this relationship that is not always linear or straightforward. A deeper understanding of these nuances is crucial to identifying the conditions under which sustainable investment can optimally enhance corporate value and how different sectors moderate the relationship.

A comprehensive analysis of the available literature reveals key findings regarding the impact of ESG on financial performance. Positive impacts often dominate, with many studies identifying a strong association between high ESG performance and increased profitability, better operational efficiency, reduced risk exposure, and lower cost of capital (Yu, 2024; Zhu & Wang, 2024; Pu, 2024; Lee et al., 2023; Chen, 2025; Pramitasari, 2024). Companies that are proactive in meeting ESG standards also tend to enjoy higher investment returns and lower volatility, especially compared to non-ESG portfolios (Pramitasari, 2024). However, there are also negative or neutral impacts reported by a number of studies. These inconsistent results can be explained by several factors, such as sector-specific characteristics, regulatory differences across countries, or biases in ESG measurement methods (Halid et al., 2023; Li, 2024; Zhan, 2023; Chen, 2024). Challenges such as greenwashing and the high initial costs of implementing ESG practices can also mitigate the expected positive impacts (Zhan, 2023; Chen, 2024).

The impact of ESG criteria on corporate financial performance can be analyzed through several key aspects. First, in the context of capital access and capital costs, strong ESG performance has been shown to reduce financing constraints and lower capital costs. This is due to increased trust from investors and creditors, who view companies with good ESG as more stable and sustainable entities (Yu, 2024; Pu, 2024; Chen, 2025; Chen, 2024). Second, in terms of risk management, systematic ESG disclosure significantly helps reduce various types of risks, including operational, reputational, and legal risks, while increasing overall corporate transparency (Pu, 2024; Lee et al., 2023). Third, in terms of corporate value and innovation, commitment to ESG tends to drive greener product and process innovation, improve resource efficiency, and ultimately create long-term value for shareholders (Lee et al., 2023; Chen, 2024). Finally, portfolios built on ESG principles have shown higher returns and lower volatility, especially in volatile market conditions, offering attractive investment stability (Pramitasari, 2024).

A cross-sector comparison of findings reveals interesting variations in the impact of ESG on financial performance. In the banking and finance sector, the effect of ESG tends to be generally positive, with improvements in efficiency and profitability often reported (Yu, 2024; Zhu & Wang, 2024; Lee et al., 2023). This may be due to the sector's central role in facilitating green finance and the adoption of ESG standards in financing decisions. On the other hand, for the manufacturing sector, the impact of ESG on financial performance tends to be more variable, depending largely on the level of environmental sensitivity of their operations and the quality of corporate governance implemented (Li, 2024; Chen, 2024). Sectors with high emissions may face greater compliance challenges and costs. Overall across sectors, most studies confirm a positive relationship, but findings vary depending on country context and specific industry characteristics (Zhu & Wang, 2024; Halid et al., 2023; Li, 2024). The implication is that while ESG benefits are general, implementation strategies and impact expectations must be tailored to each sectoral and regional context.

Mechanisms and Pathways of Cross-Sectoral Influence

The mechanisms and pathways of green finance and sustainable investment's influence on corporate financial performance are crucial aspects that determine the effectiveness of its implementation. Research shows that this impact is not a single one, but involves a series of complex processes, especially through green product innovation, resource efficiency, risk management, and increasing ESG investor attractiveness. Green innovation, for example, drives the development of environmentally friendly products and processes, which in turn can create competitive advantages and increase corporate value in the market. However, it is important to note that over-investment in green innovation without a balanced innovation portfolio can pose financial risks (Zhang & Yang, 2025; Malik et al., 2021; Bhutta et al., 2024). Meanwhile, resource efficiency through waste reduction and optimization of material use directly contributes to lower operating costs and improved financial performance.

Another dominant mechanism is environmental risk management. Integrating Environmental, Social, and Governance (ESG) considerations into an enterprise risk management (ERM) system allows companies to proactively identify, assess, and mitigate environmental, social, and governance risks. This approach not only reduces potential financial losses due to regulatory fines or lawsuits but also improves long-term business stability and sustainability (Lee et al., 2023; Spoz et al., 2023). In addition, the attractiveness of ESG investors is a significant driving factor. Companies with strong and transparent ESG performance tend to be more attractive to institutional and individual investors who prioritize sustainability. This attraction not only opens up access to more diverse and often cheaper sources of capital, but can also increase the valuation of companies in the capital markets, reflecting investor confidence in sustainable business prospects (Wang, 2025; Lee et al., 2023; Roca et al., 2022; Broccardo et al., 2024; Teixeira, 2025).

The impacts of green finance and sustainable investing show significant similarities and differences across sectors, depending on the intrinsic characteristics of the industry and the complexity of its supply chain. Nearly all sectors benefit from green innovation, increased efficiency and improved reputation resulting from ESG practices. This suggests that there are universal underlying benefits from sustainability adoption. However, the emphasis on specific mechanisms may vary. For example, in the energy and manufacturing sectors, the dominant focus is on comprehensive environmental risk management, given the larger carbon footprint and environmental impact of their operations. These sectors also place a high emphasis on resource efficiency to optimise production costs and comply with stringent environmental regulations (Malik et al., 2021; Spoz et al., 2023).

Table 2. List of Differences and Similarities in Cross-Sector Impacts

Sector/Aspect	Dominant Mechanism	Difference/Similarity Notes
Energy & Manufacturing	Green innovation, risk management	The energy sector is more likely to integrate ESG into Enterprise Risk Management (ERM); manufacturing is more focused on resource efficiency.
Services &	Investor	Services sector is quicker to adopt ESG; finance emphasizes

Finance	attraction, transparency	transparency and green bonds.
Cross Sector	Supply chain ESG, innovation	Supply chain is the main transmission channel for ESG between companies.
Cross-Sector Similarities	Green innovation, efficiency, reputation	Nearly all sectors benefit from green innovation, operational efficiency and reputation enhancement through ESG adoption.
Cross-Sector Differences	Emphasis on Mechanism	The energy and manufacturing sectors place greater emphasis on environmental risk management and resource efficiency; the services and financial sectors focus more on transparency, ESG reporting, and investor appeal.

In contrast, the services and financial sectors tend to focus more on investor appeal and transparency in ESG reporting. The services sector, for example, is quicker to adopt ESG practices due to its more visible impact on reputation and stakeholder relations. Meanwhile, the financial sector emphasizes transparency and the development of green finance instruments such as green bonds, which act as a bridge between investor capital and sustainable projects (Wang, 2025; Lee et al., 2023; Teixeira, 2025). Across sectors, ESG supply chain management is also emerging as a key transmission channel. Companies are not only focusing on their internal practices but also ensuring that partners in the supply chain meet sustainability standards, creating a positive domino effect across the business ecosystem (Wang, 2025; Malik et al., 2021).

Overall, the literature findings indicate that green finance and sustainable investing collectively improve financial performance through innovation, efficiency, risk management, and investor attraction. While these basic mechanisms apply across sectors, the intensity and priority of their implementation may vary significantly. Sectors with higher exposure to environmental risks, such as energy and manufacturing, will place greater emphasis on risk mitigation and operational efficiency. On the other hand, services and financial sectors will place greater emphasis on improving capital access and transparency to attract ESG-conscious investors. Understanding these differences and similarities is critical for companies, investors, and policymakers to develop more effective sustainability strategies that positively impact overall financial and environmental performance.

Challenges and Opportunities in Implementation

The implementation of green finance and sustainable investment is a crucial element in the transition to a greener economy, but it is not without complex challenges that hinder its widespread adoption. One of the main barriers is the high upfront costs that are often attached to investments in green infrastructure and environmentally friendly technologies. Such projects require substantial upfront capital investment, which can be a significant barrier, especially for developing countries or companies with limited financial resources (Pohl et al., 2020; Shekhawat & Neha, 2024). Furthermore, the lack of uniform standards and transparency in the definition and assessment of green projects creates uncertainty for investors and market participants. The absence of a consistent global framework makes it difficult to verify and report environmental impacts, which in turn can hinder capital flows to truly sustainable projects (Kharb et al., 2024; Mata et al., 2022; Tang, 2024).

Another significant challenge is the risk of greenwashing, a practice where companies claim commitment to sustainability without any real evidence or substantial implementation. This phenomenon can erode investor and public trust, reduce the effectiveness of green finance instruments, and even damage the reputation of the sustainable finance market as a whole (Teixeira, 2025; Kharb et al., 2024). In addition, the limitations of immature regulations and incentives in many jurisdictions, especially in emerging markets, also pose serious barriers. Policy uncertainty and the lack of a clear incentive framework can hinder innovation and adoption of green finance instruments (Pohl et al., 2020; Desalegn & Tangl, 2022; Gafsi & Zarrad, 2025; Shekhawat & Neha, 2024). Finally, the lack of knowledge and capacity regarding the assessment of risks and opportunities in green projects often limits the ability of financial institutions and investors to participate effectively in the green finance ecosystem (Kharb et al., 2024; Desalegn & Tangl, 2022; Mata et al., 2022).

Despite the challenges, the green finance and sustainable investment landscape also offers significant opportunities that can drive growth and innovation. One of the most promising opportunities is the continued growth of the market. There has been a significant increase in global demand for green products and services, as well as sustainability-oriented investment instruments. This trend has created a strong market impetus for companies and investors to shift their focus towards more environmentally friendly practices (Teixeira, 2025; Gafsi & Zarrad, 2025; Shekhawat & Neha, 2024). In line with this, regulatory and policy support from governments in various countries is getting stronger. Many countries are now actively formulating supportive regulatory frameworks, providing tax incentives, and encouraging the issuance of green financial instruments such as green bonds, which directly facilitate capital flows to sustainable projects (Tang, 2024; Fu et al., 2023; Shekhawat & Neha, 2024).

Another significant opportunity comes from financial and technological innovation. Technological developments such as blockchain and decentralized finance (DeFi) have great potential to increase the transparency, efficiency, and accessibility of green finance. These technologies enable more accurate impact tracking, facilitate more efficient issuance of financial instruments, and even open up opportunities for retail investors to participate in green projects (Teixeira, 2025). In addition, increasing consumer awareness and demand are also key drivers. Consumers who are increasingly concerned about environmental issues and social impacts are demanding more sustainable products and services, pushing companies to innovate and integrate sustainability practices into their business models (Tang, 2024; Fu et al., 2023). All these opportunities underscore the positive outlook for the future of sustainable finance, although collaboration between stakeholders remains essential to overcome existing barriers.

CONCLUSION

This comprehensive literature review shows that green finance and sustainable investment have substantial and likely positive impacts on corporate financial performance, although the complexity of the relationship results in mixed findings. The majority of the studies reviewed, published between 2022 and 2025, underline that adoption of these practices can improve corporate profitability, investment efficiency, and competitiveness. Key mechanisms driving these positive impacts include cheaper access to capital through instruments such as green bonds, improved reputation among investors and consumers, and encouragement of green innovation that creates long-term value. While most of the literature is cross-sectoral or general theoretical, some studies, such as Oneya & Jemaiyo (2025), focus specifically on the banking sector, demonstrating the relevance of this issue across industry contexts.

However, the implementation of green finance and sustainable investment also faces several challenges that need to be overcome. Significant barriers include high upfront costs, lack of uniform global standards and transparency, and the risk of greenwashing that can erode market confidence. In addition, limited regulations and immature incentives in some jurisdictions, along with a lack of knowledge and capacity, also slow down adoption. However, behind these challenges lie significant opportunities, such as continued market growth for green products and investments, stronger regulatory and policy support from governments, technology-driven financial innovation, and increasing consumer awareness and demand. Overall, these findings confirm that while the benefits of green finance and sustainable investment are not always linear, the outlook is very positive with the right strategies.

Based on the findings and gaps identified in this literature review, further research is suggested to focus on several areas. First, more in-depth quantitative empirical studies using primary or secondary data from different sectors in developing countries are needed, given that most of the literature tends to be global or focused on developed economies. These studies could statistically test the specific mechanisms (e.g., the role of corporate governance in moderating the impact of green finance) and contextual factors that influence the relationship between green finance, sustainable investment, and corporate financial performance. Second, in-depth case study explorations in specific, under-researched sectors, such as sustainable agriculture or green mining industries, could provide rich qualitative insights into implementation challenges and successes. Third, there is a need to develop more comprehensive theoretical models to explain more complex causal pathways, including the mediating and moderating roles of macroeconomic and regulatory factors.

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